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Challenges and Opportunities for the P/C Insurance Industry

Casualty Loss Reserve Seminar
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What in the World Is Going On?

Is the World Becoming a Riskier Place?

What are the Implications for Insurance and Risk Management?

2

Uncertainty, Risk, and Fear Abound

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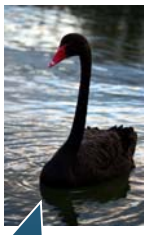
- US Debt/Budget Crisis and S&P Downgrade
  - Short-term: Slow Growth/A Double Dip Recession?
  - Long-term: Era of Fiscal Austerity?
  - Hyper-Inflation? Deflation?
- Housing Crisis
- Persistently High Unemployment
- European Sovereign Debt Crises
- Earthquakes/Nuclear Reactor Meltdowns
- Record Tornadoes, Floods, Wildfires, in the US
- Manmade Disasters
  - Deepwater Horizon, "Fracking"
- Resurgent Terrorism Risk
- Political Upheaval in the Middle East
- China on Track to Be #1 Economy in the World
  - *Is the U.S. era over?*



Are "Black Swans" everywhere or does it just seem that way?

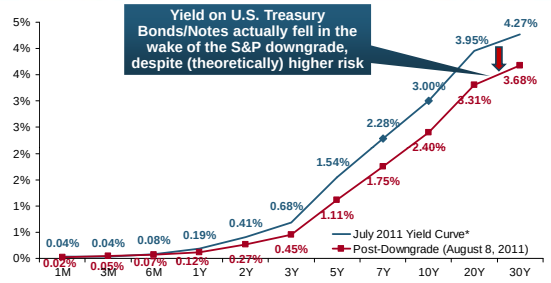
3

Impacts on P/C Insurers of S&P's Downgrade of US Sovereign Debt

- **S&P Downgrade of US Debt Will Have Little Practical Impact**
  - Solvency, liquidity, claims paying capacity all unaffected
  - US sovereign debt accounts for 6% ($80B out of $1.3 trillion) in invested assets
- **Investors Will Continue to View US Treasury Securities as the Safest Investment in the World**
  - Other bond raters (Moody's, Fitch) affirmed top credit ratings for US
  - US bond yields *fell* in the days after S&P issued its initial warning
  - Evidence suggests that investors' asset of choice during "flight to safety" remains US debt
- **Risk Charge/Weights for US Debt Held by Financial Firms Won't Change**
  - Federal bank regulators have already stated risk weights won't change
  - Extremely unlikely state insurance regulators would do anything different
  - NAIC (Aug. 7) "*There is no impact on insurer investments in U.S. government and government-related securities from the actions recently taken by the rating agencies. Risk-based capital and asset valuation reserves are unaffected.*"
- **Interest Rates on US Debt Unlikely to Rise Much Due to Downgrade, if at All**
  - Insurers should see little or no need to mark down value of bonds
- **Market for US Debt Will Remain Largest & Most Liquid in the World**
  - Downgrade poses no liquidity or solvency issues

4

Treasury Yield Curves Before and After S&P Downgrade (July 2011 vs. Aug. 8)



The downgrade occurred at the same time investors heard worrisome news from Europe; yields fell (prices rose) because U.S. debt is still considered a safe haven.

*Average of daily rates.
Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

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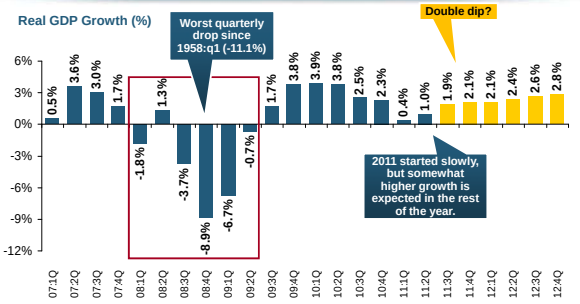
The Economic Picture

With a Focus on Employment and Unemployment Trends

6

US Real GDP Growth, quarterly*



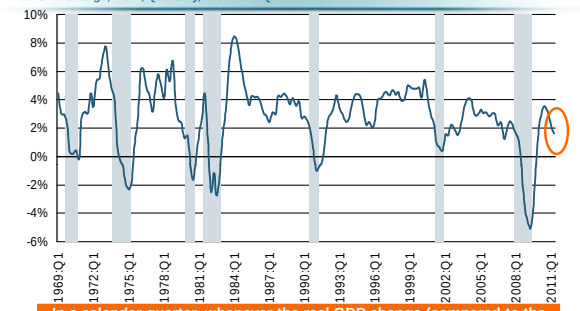
Demand for insurance continues to be affected by a sluggish economy

* Estimates/Forecasts from Blue Chip Economic Indicators.
Source: US Department of Commerce, Blue Economic Indicators 9/2011 issue (forecasts); Insurance Information Institute.

7

A Reliable Recession Indicator?

Real GDP Change, Y-o-Y, Quarterly, 1969-2011:Q2



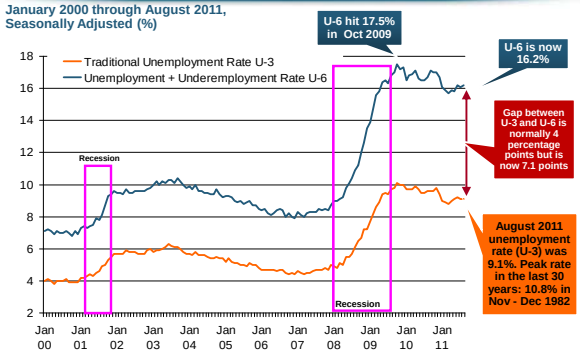
In a calendar quarter, whenever the real GDP change (compared to the prior-year same quarter) is under 2%, the economy is either in recession or goes into recession within a year.

Sources: Wells Fargo Securities, Economics Group; Federal Reserve Bank of St. Louis; National Bureau of Economic Research (recession dates); Insurance Information Institute.

8

Unemployment and Underemployment Rate "Normality": Years to Go

January 2000 through August 2011, Seasonally Adjusted (%)



Source: U.S. Bureau of Labor Statistics; Insurance Information Institute.

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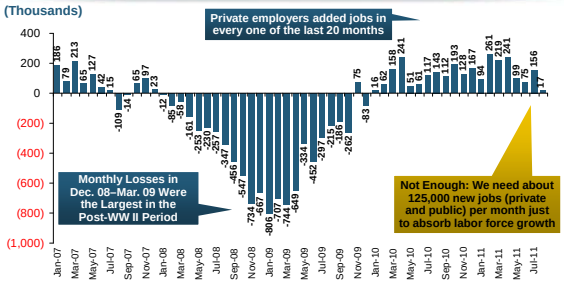
Monthly Change in Private Employment

January 2007 through August 2011

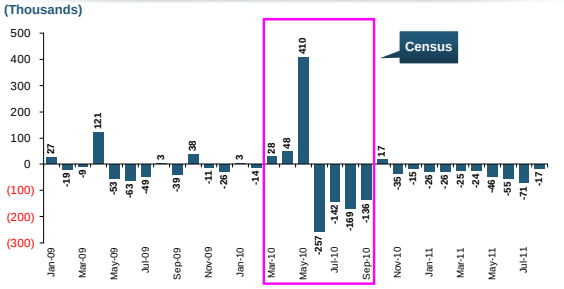


Private employers added (net) 2.61 million jobs in 2010-2011, after having shed 4.66 million jobs in 2009 and 3.81 million in 2008. The Verizon labor dispute subtracted 45,000 payroll jobs in August but it is over and these jobs will be added back in the September report.

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

Monthly Change in Government Employment

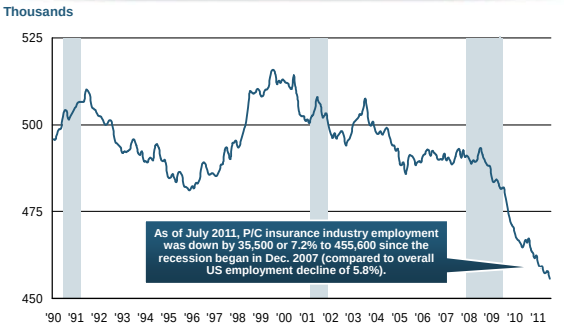
January 2009 through August 2011



Employment by government at all levels dropped every month in 2011. Total jobs lost through August: 273,000.

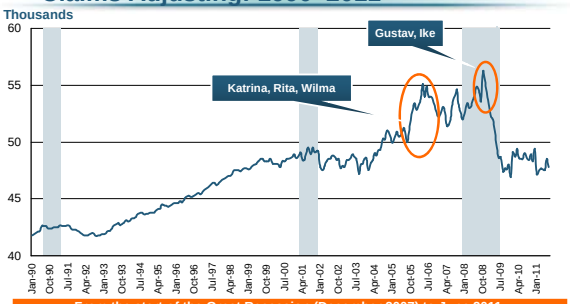
Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

U.S. Employment in the Direct P/C Insurance Industry: 1990–2011*



*As of July 2011; Not seasonally adjusted; Does not including agents & brokers.
Note: Recessions indicated by gray shaded columns.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

U.S. Employment in Insurance Claims Adjusting: 1990–2011*



From the start of the Great Recession (December 2007) to June 2011, claims adjusting employment shrank by 3,400 or 6.5% to 48,600. Overall US employment dropped by 4.8%).

*As of July 2011; Not seasonally adjusted. Note: Recessions indicated by gray shaded columns.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

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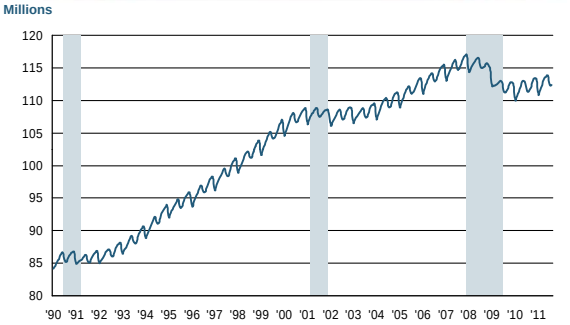
U.S. Employment in Service Industries, Monthly, 1990–2011*



*As of August 2011; Not seasonally adjusted.
Note: Recessions indicated by gray shaded columns.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

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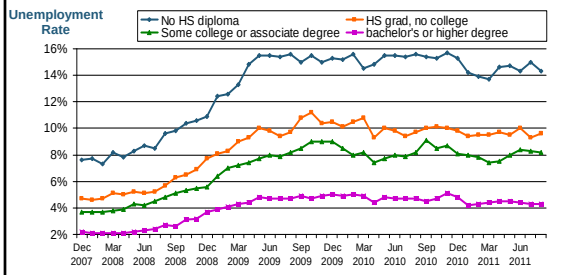
The Unemployment Rate Differs Sharply by Educational Attainment



**The unemployment rate for people with a bachelor's or higher degree never rose above 5.1%.
The rate for those who didn't complete high school never fell below 7.3%.**

Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and are for people age 25 and older.

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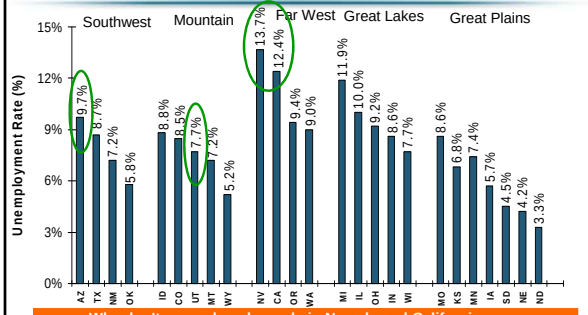
Unemployment Rates Vary Widely by State and Region*



Why don't unemployed people in Nevada and California move to Utah or even Arizona, where the labor market is more favorable?

*Provisional figures for July 2011, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

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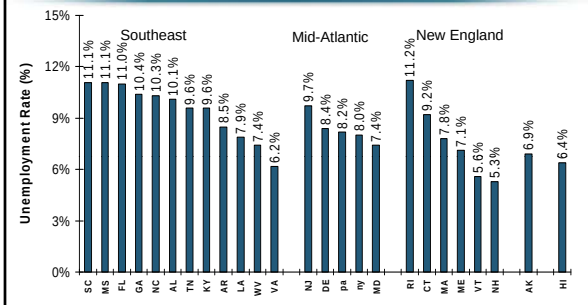
Unemployment Rates Vary Widely by State and Region* (cont'd)



*Provisional figures for July 2011, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

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Economic Drivers of P/C Insurance Exposures

Growth in the Wake of the "Great Recession"

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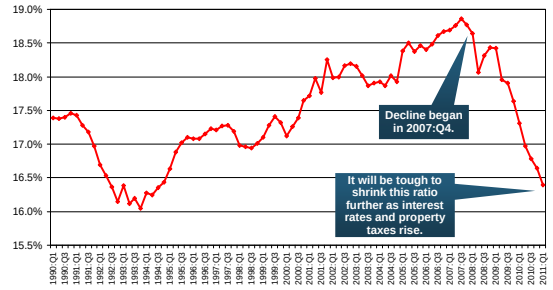
Households Are Still* Reducing Their Financial Obligations

Financial Obligations Ratio: debt service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as % of personal disposable income.



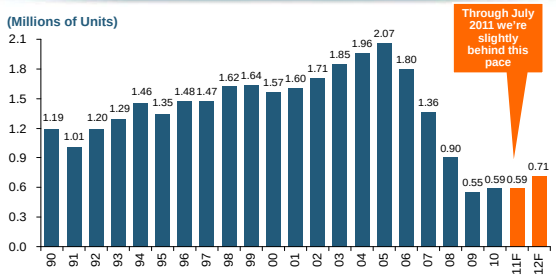
*through 2011:Q1 (data posted on Jun 16, 2011)
Source: Federal Reserve Board, at http://www.federalreserve.gov/releases/housedebt

The Housing Situation

It Will Improve, but Very Slowly

20

Private Housing Starts, 1990-2012F



Weak home construction forecast implies little exposure growth likely for Homeowners insurers for the next few years, but homeowners might fortify homes to mitigate storm and other damage.

Sources: U.S. Department of Commerce (history) ; Blue Chip Economic Indicators (9/2011), forecasts; Insurance Information Institute.

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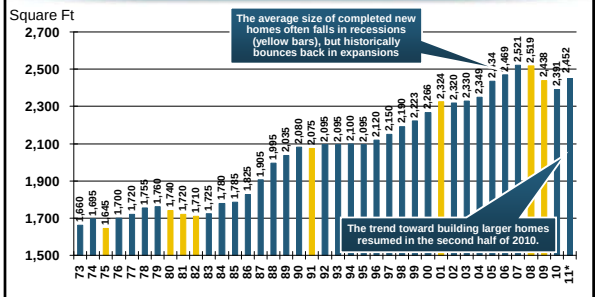
Average Square Footage of Completed New Homes in U.S., 1973-2011



*average of first two quarters of 2011
Source: U.S. Census Bureau: http://www.census.gov/const/www/quarterly_starts_completions.pdf; Insurance Information Institute.

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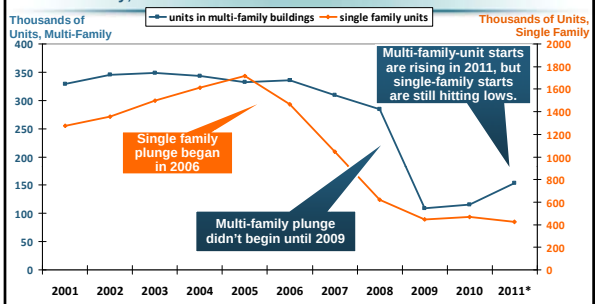
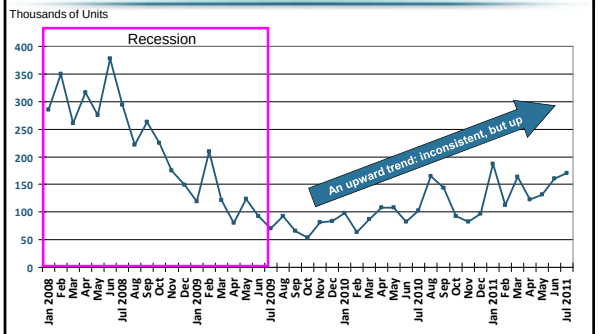
Single vs. Multi-Family Housing Starts, Annually, 2001-2011:1H



The slump is mainly in single-family housing, but starts of multi-family units also plunged in 2009-10.

*2011:1H annualized
Source: US Census Bureau at http://www.census.gov/const/newresconst.pdf

Number of Units in Multi-Family Housing* Starts**, Monthly, January '08-July '11

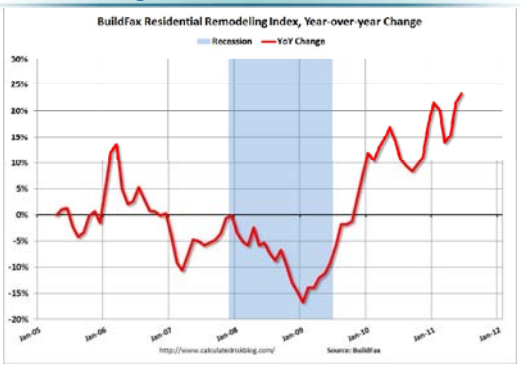


*5 units or more **seasonally-adjusted annual rates
Source: US Census Bureau at http://www.census.gov/const/newresconst.pdf

Housing Starts Likely Will Rise Only When the Unemployment Rate Falls

25

Remodeling Activity* Index Sets New High, Monthly, 2005-2011



*permits; not dollar-weighted

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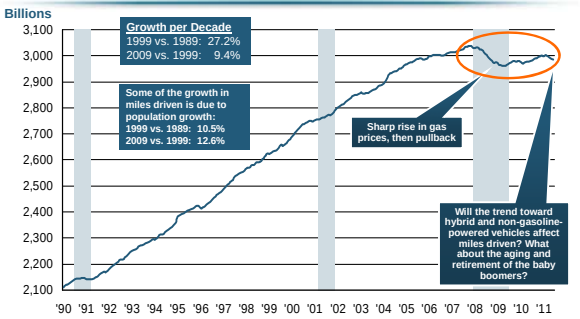
The Auto Insurance Picture

A "New Normal": More Old Cars on the Road

27

Miles Driven*, 1990–2011



*Moving 12-month total Notes: Recessions indicated by gray shaded columns. June 2011 miles driven is latest data as of 9/6/2011.
Sources: Federal Highway Administration (http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm);
National Bureau of Economic Research (recession dates); Insurance Information Institute.

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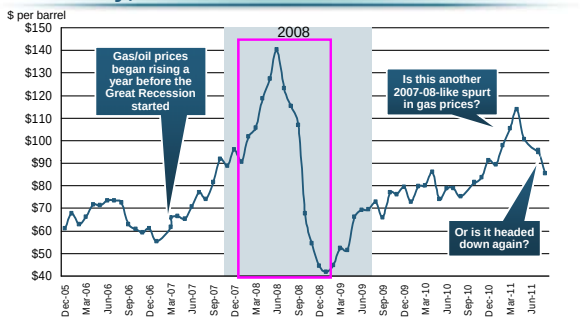
Recent History of Crude Oil Prices* Monthly, 2006-2011



Note: Recession indicated by gray shaded column.
*per barrel of light, sweet crude oil for future delivery as traded on the New York Mercantile Exchange (NYMEX); last weekly close in each month, except Decembers (which are 12/31 closing prices)
Sources: NYSE at http://www.nyse.tv/crude-oil-price-history.htm NBER (recession dates)

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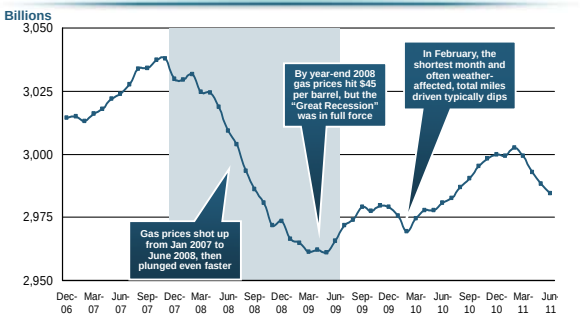
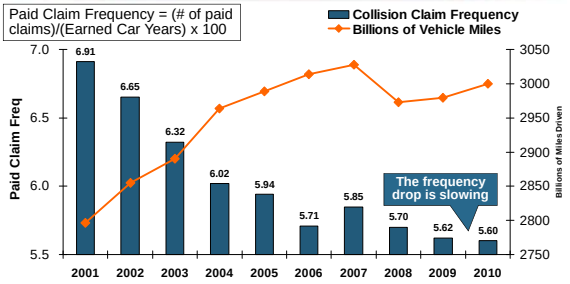
Miles Driven*, 2007–2011



*Moving 12-month total, through June 2011 Note: Recession indicated by gray shaded columns.
Sources: Federal Highway Administration (http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm);
National Bureau of Economic Research (recession dates); Insurance Information Institute.

30

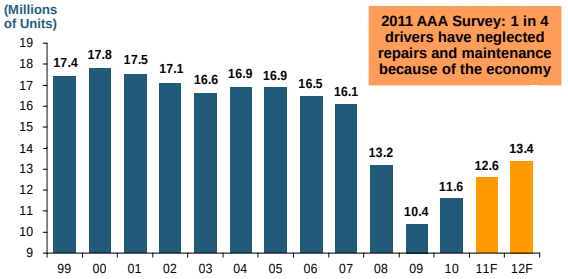
Do Changes in Miles Driven Affect Auto Collision Claim Frequency?



"Pay-As-You-Go" Auto Insurance: Fluctuations in miles driven will affect exposure

Sources: Federal Highway Administration (http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm; ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data:* 4th Qtr. 2010, published March 31, 2011, and earlier reports.

The Car-Buying Slump Means Roads With More Aging Vehicles



In what once was a "normal" 3-year span, new cars would replace about 35 million old cars, but in 2008-10 only about 27 million old cars were replaced

Sources: U.S. Department of Commerce; Blue Chip Economic Indicators (9/11); Insurance Information Institute; USA Today 8/10/2011 edition (AAA Survey).

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The Commercial Insurance Picture

The Near-Term Outlook for Small Business is Getting Better but isn't Bright

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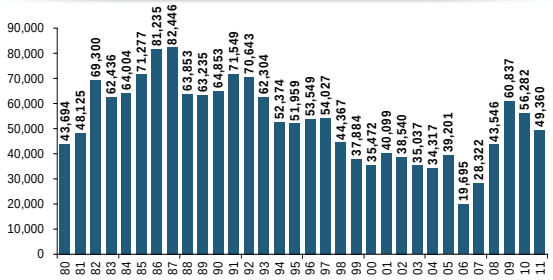
Business Bankruptcy Filings, Annually, 1980-2011*



Business bankruptcies were down 7.5% in 2010 vs. 2009 and are on pace for a 15.9% drop in 2011, but are likely to be higher than in any pre-recession year since 1997. Significant exposure implications for all commercial lines.

*Bankruptcies for 2011:1H annualized Sources: American Bankruptcy Institute at http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633 ; Insurance Information Institute

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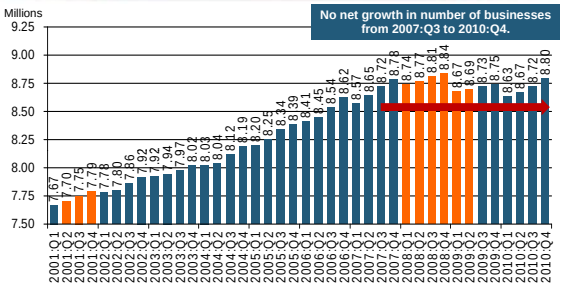
Number of Private Business Establishments, 2001:Q1-2010:Q4*



The number of employees in new businesses is typically lower than the number in formerly-operating businesses that closed.

*data for 2010:Q1-2010:Q4 are preliminary Note: quarters when the economy was in recession are indicated by orange bars
Sources: U.S. Bureau of Labor Statistics "Quarterly Census of Employment and Wages"; Insurance Information Institute

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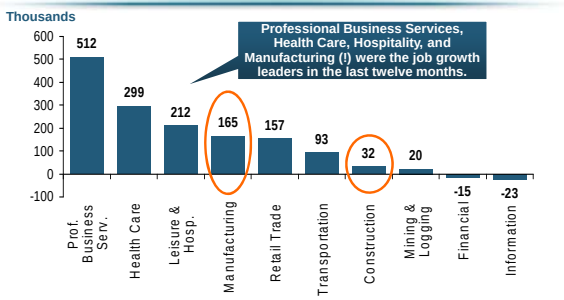
Change in Number Employed in Select Industries, July 2011 vs. July 2010



There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

*includes Temporary Help Note: data are seasonally adjusted
Sources: US Bureau of Labor Statistics "Employment Situation, July 2011"; Insurance Information Institute.

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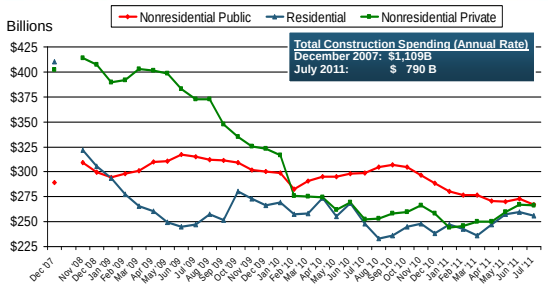
Value* of Construction Put In Place, Monthly, Nov '08-Jul '11



Since the recession started, private residential and nonresidential construction together are down $330 billion (annual rate), a drop of 40.5%. Public construction has hardly moved.

*Seasonally adjusted annual rate

Source: http://www.census.gov/const/C30/release.pdf

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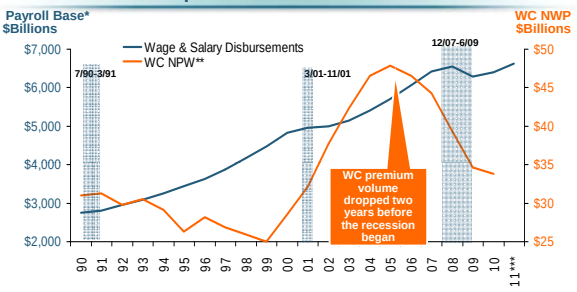
Wage and Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums



Weakening payrolls have eroded $2B+ in workers comp premiums; nearly 29% of NPW has been eroded away by the soft market and weak economy

*private employment **includes premiums to state funds ***2011:Q2 Shaded areas indicate recessions.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; NCCI; I.I.I. Fact Books

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P/C Insurance Industry Financial Overview

Profit Recovery Continues
Early Stage Growth Begins

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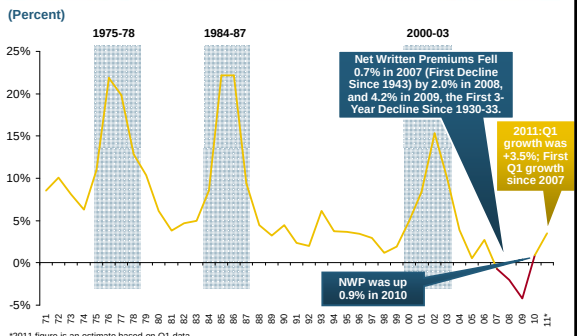
Soft Market Persisted in 2010 but Growth Returned: More in 2011?



*2011 figure is an estimate based on Q1 data.
Shaded areas denote "hard market" periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

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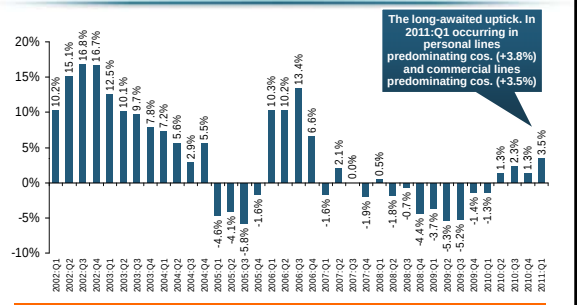
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

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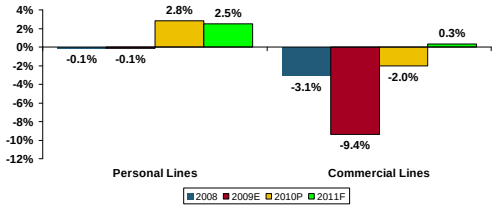
Net Written Premium Growth by Segment: 2008-2011F

Personal lines growth resumed in 2010 and will continue in 2011, while commercial lines contracted again in 2010 and but will stabilize in 2011



Rate and exposure are more favorable in personal lines, but a prolonged soft market and sluggish recovery from the recession weigh on commercial lines.

Sources: A.M. Best; Insurance Information Institute.

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The BIG Question: When Will the Market Turn?

Insurance Cycle Dynamics

Criteria Necessary for a "Market Turn": *All Four Criteria Must Be Met*

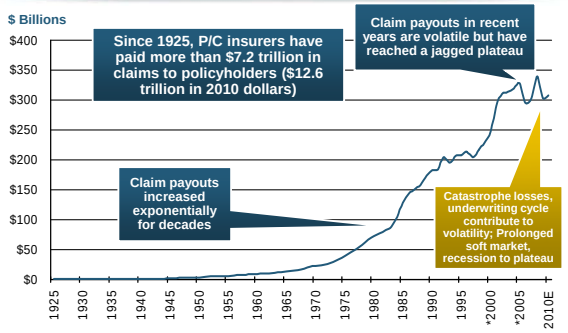
Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	*Not Yet Happened*	•Apart from Q2:2011, overall p/c underwriting losses remain modest •Combined ratios (ex-Q2 CATs) still in low 100s (vs. 110+ at onset of last hard market) •Prior-year reserve releases continue reduce u/w losses, boost ROEs
Material Decline in Surplus/ Capacity	*Surplus is At/Near Record High*	•Surplus hit a record $565B as of 3/31/11 •Analysts est. excess surplus of $75-$100B •Some excess capacity may still remain in reinsurance markets •Weak growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	*Somewhat in Place*	•Higher prices in Asia/Pacific •Modestly improved pricing for US risks
Renewed Underwriting & Pricing Discipline	*Not Broadly Evident*	•Commercial lines pricing trends remain negative •Competition remains intense as many seek to maintain market share •Terms & conditions—no broad tightening

Sources: Barclays Capital; Insurance Information Institute.

Underwriting Trends

The Financial Crisis/Great Recession Did *Not* Directly Affect Underwriting Performance

Dollar Value of Claims Paid by P/C Insurers to Policyholders, 1925–2010E*



*1925 – 1934 stock companies only. Includes workers compensation state funds 1998-2006.
Note: Data are not adjusted for inflation.
Sources: Insurance Information Institute research and calculations from A.M. Best data.

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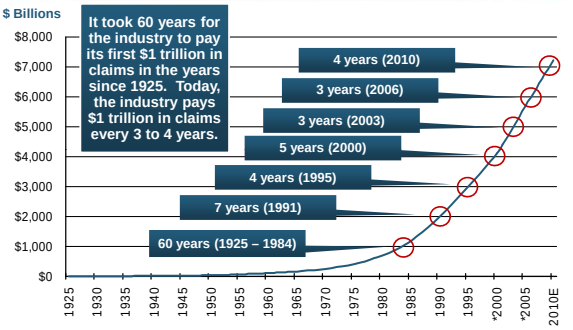
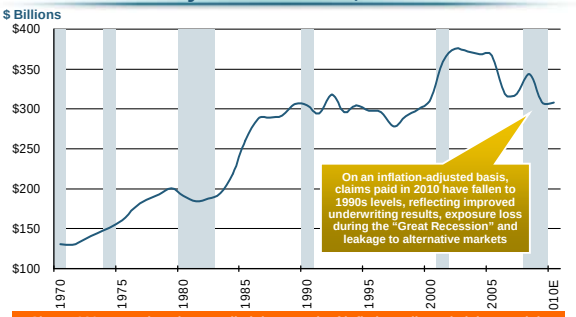
Cumulative Value of Claims Paid by P/C Insurers to Policyholders, 1925–2010E*



*1925 – 1934 stock companies only. Includes workers compensation state funds 1998-2006.
Note: Data are not adjusted for inflation.
Sources: Insurance Information Institute research and calculations from A.M. Best data.

47

Inflation-Adjusted Dollar Value of Claims Paid by P/C Insurers, 1970–2010E*

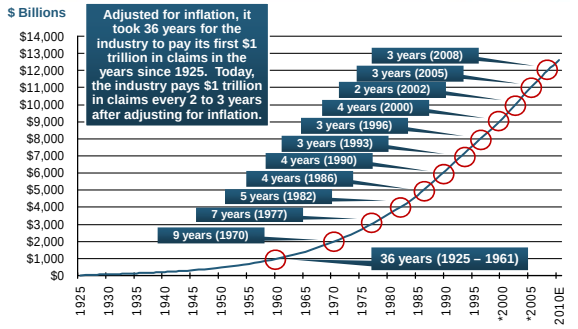


Since 1980, recessions have stalled the growth of inflation-adjusted claims, mainly through loss of the exposure base and leakage to alternative markets.

*Includes workers compensation state funds 1998-2006. Shaded areas indicate recessions.
Sources: Insurance Information Institute research and calculations from A.M. Best data.

48

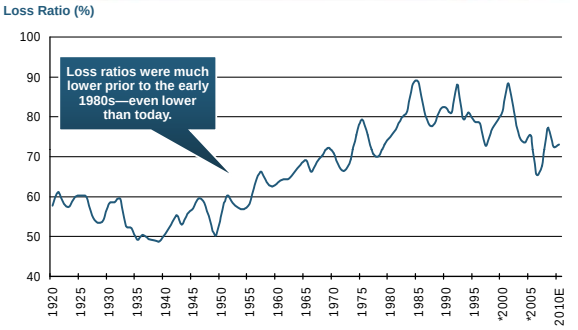
Cumulative Value of Inflation-Adjusted Claims Paid by P/C Insurers, 1925–2010E*



*1925 – 1934 stock companies only. Includes workers compensation state funds 1998-2006.
Sources: Insurance Information Institute research and calculations from A.M. Best data.

49

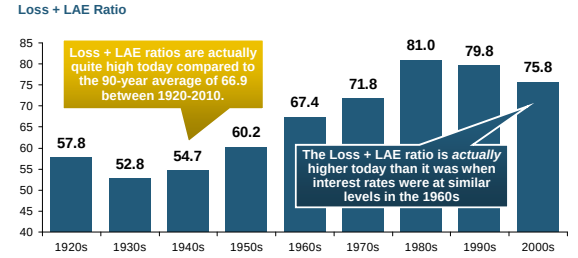
P/C Insurance Loss & LAE Ratio, 1920–2010E*



*1920 – 1934 stock companies only. Includes workers compensation state funds 1998-2006.
Sources: Insurance Information Institute research and calculations from A.M. Best data.

50

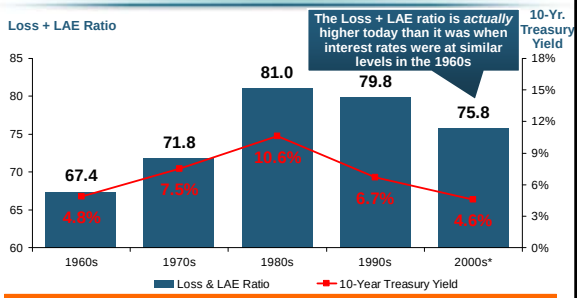
Loss and LAE Ratio: 1920s – 2000s



There is a Clear, Consistent Relationship Between Loss Ratios and Investment Yield Over the Span of Decades. Lower Loss Ratios in the 2000s Relative to the 1980s and 1990s Reflect the Reality of Investment Yields

Sources: A.M. Best, Board of Governors of the Federal Reserve; Insurance Information Institute.

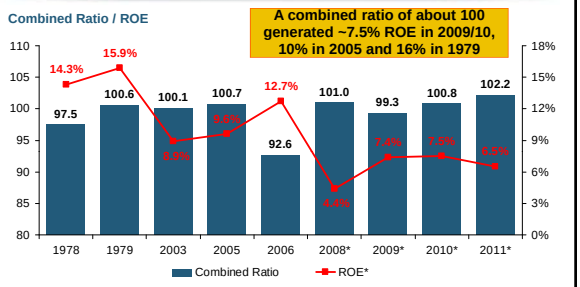
Loss and LAE Ratio vs. 10-Year Treasury Yield, by Decade: 1960s – 2000s



There is a Clear, Consistent Relationship Between Loss Ratios and Investment Yield Over the Span of Decades. Lower Loss Ratios in the 2000s Relative to the 1980s and 1990s Reflect the Reality of Investment Yields

Sources: A.M. Best, Board of Governors of the Federal Reserve; Insurance Information Institute.

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

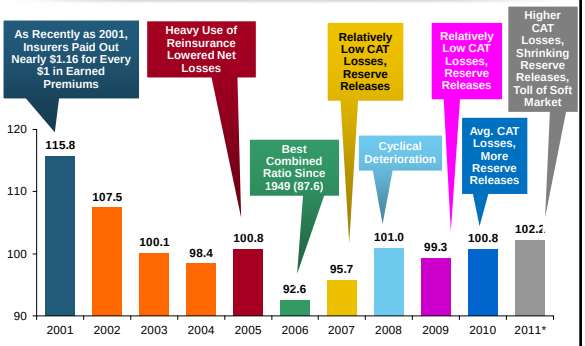


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers

Source: Insurance Information Institute from A.M. Best and ISO data.

P/C Insurance Industry Combined Ratio, 2001–2011:Q1*

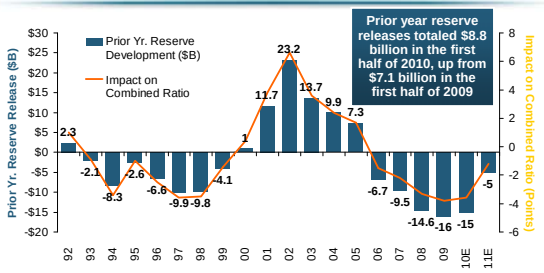


* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=103.3

Sources: A.M. Best, ISO.

54

P/C Reserve Development, 1992–2011E

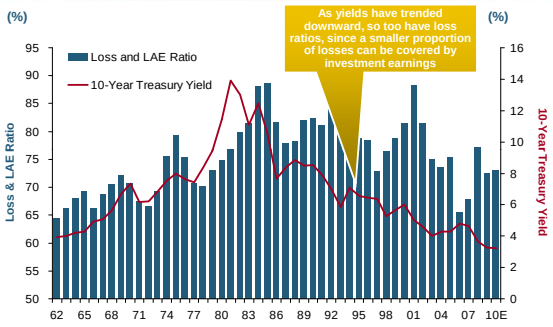


Reserve releases remained strong in 2010 but are expected to taper off in 2011

Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.
Sources: Barclay's Capital; A.M. Best.

55

Loss and LAE Ratio vs. 10-Year Treasury Yield, 1962-2010



Sources: A.M. Best, Board of Governors of the Federal Reserve; Insurance Information Institute.

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Catastrophe Loss Developments and Trends

2011 is Rewriting Catastrophe Loss and Insurance History

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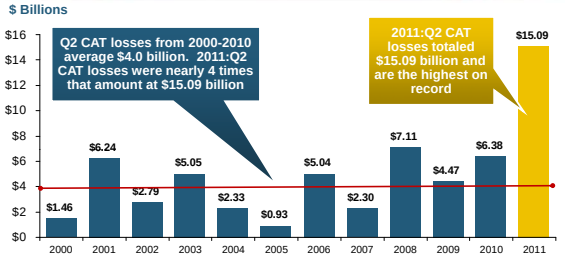
Global Catastrophe Loss Summary: First Half 2011

- **2011 Is Already (as of June 30) the *Highest* Loss Year on Record Globally**
  - Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **$260 Billion in *Economic* Losses Globally**
  - New record for the first six months, exceeding the previous record of $220B in 2005
  - Economy is more resilient than most pundits presume
- **$55 Billion in *Insured* Losses Globally**
  - More than double the first half 2010 amount
  - Over 4 times the 10-year average
- **$27 Billion in *Economic* Losses in the US**
  - Represents a 129% increase over the $11.8 billion amount through the first half of 2010
- **$17.3 Billion in *Insured* Losses in the US Arising from 100 CAT Events**
  - Represents a 162% increase over the $6.6 billion amount through the first half of 2010

58

US Second Quarter Insured Catastrophe Losses, 2000–2011



Record Q2 (and First Half) CAT Losses Will Adversely Impact Insurer Results in 2011

Sources: ISO/PCS; Insurance Information Institute.

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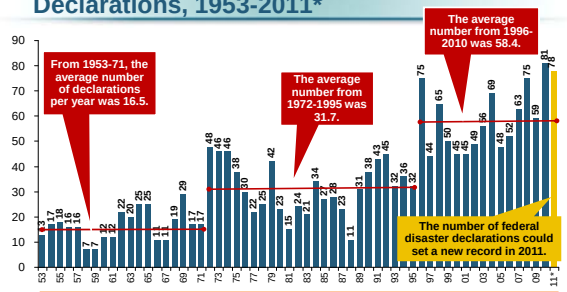
Number of Federal Disaster Declarations, 1953-2011*



There have been 2,028* federal disaster declarations since 1953. Note that 2005 was a relatively low year for number of disaster declarations in the 1996-2010 period, but that year included Hurricanes Katrina, Rita, and Wilma.

*Through September 12, 2011. Sources: Federal Emergency Management Administration at http://www.fema.gov/news/disaster_totals_annual.fema ; Insurance Information Institute.

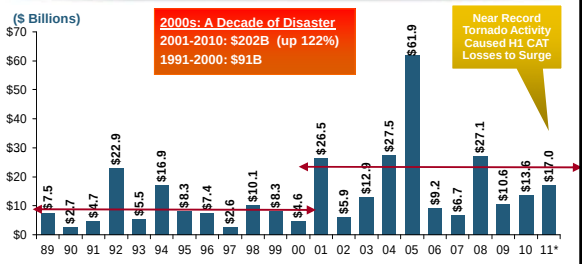
Forecast for 2011 Hurricane Season: 75% *More* Active Than Average

	Average*	2005 (Katrina Year)	2008 (Ike Year)	2011F	2011A (thru 9/12)
Named Storms	9.6	28	16	16	14
Hurricanes	5.9	15	8	9	3
Intense Hurricanes (Category 3, 4, or 5)	2.3	7	5	5	2
Net Tropical Cyclone Activity	100%	279%	162%	**175%**	

In 2008-10 the K-G forecasts were quite accurate. But in 2007 K-G forecast 9 hurricanes (there were 6), 5 intense hurricanes (there were 2) and NTC of 185% (it was 99%).

*Average over the period 1950-2000.
Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, August 3, 2011, and http://tropical.atmos.colostate.edu/Includes/Documents/Publications/forecast_verifications.xls

US Insured Catastrophe Losses

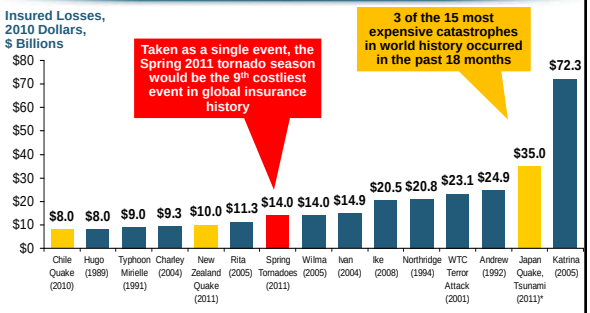


First half 2011 US CAT losses already exceed losses from all of 2010. Even modest hurricane losses will put 2011 among the worst ever for CATs

*First half 2011 (est).
Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B.
Sources: Property Claims Service/ISO; Munich Re; Insurance Information Institute.

62

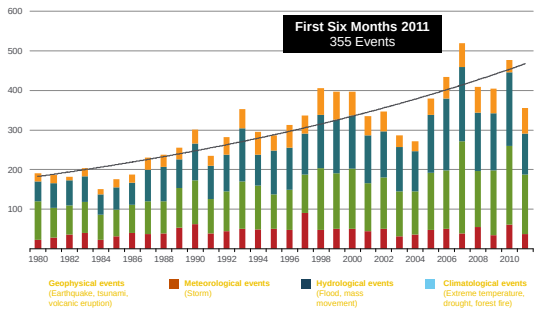
15 Costliest World Insurance Losses, 1970-2011*



*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.
Sources: Swiss Re *sigma 1/2011*; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

63

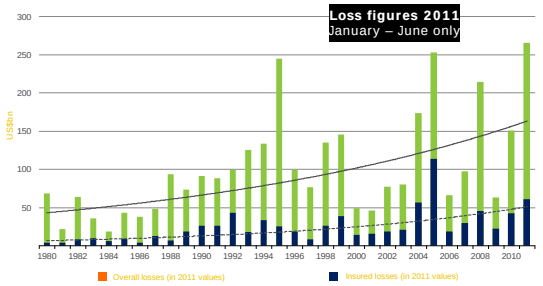
Worldwide Natural Disasters
1980 – 2011 Number of Events (January – June only)



Source: MR NatCat*SERVICE* © 2011 Munich Re 64

Worldwide Natural Disasters 1980–2011
Overall and Insured Losses

Losses in 2011: Overall = US$ 265bn ; Insured = US$ 60bn



Source: MR NatCat*SERVICE* © 2011 Munich Re 65

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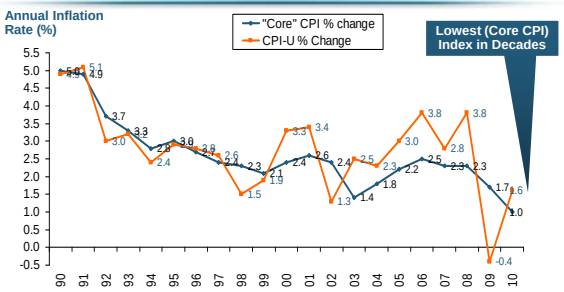
Inflation's Not an Issue for Property-Casualty Insurers Now—Right?

66

Annual Inflation Rates: "Core" CPI-U vs. Overall (or "Headline") CPI, 1990–2010

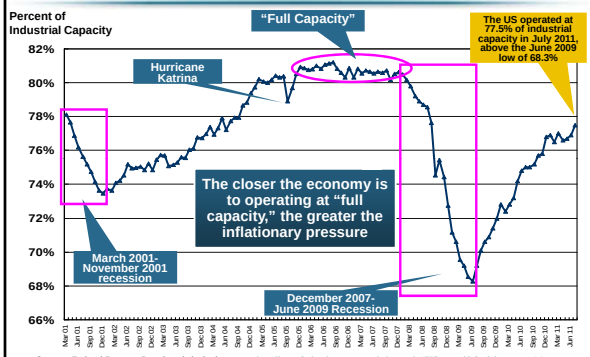


The overall (or "headline") CPI has rarely been below 2% in recent decades as it was in 2009-2010 and is now. The "Core" CPI (headline CPI minus food and energy prices) is lower than it's been in two decades.

Sources: U.S. Bureau of Labor Statistics.

67

Growth in Capacity Utilization is a Positive Sign for Commercial Exposures



Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

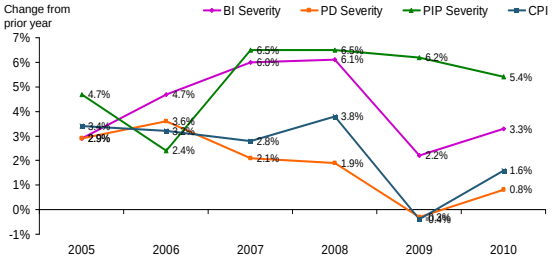
68

Price Trends of P/C Insurance Claims

P-C Claim Severity Generally Has Risen Faster than the CPI

69

Auto Liability Claims Severity Trends, 2005-2010

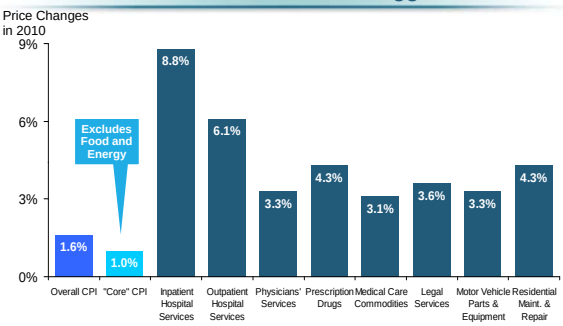


The average severity of auto property damage liability claims has grown slightly more slowly than overall inflation. Beginning in 2006, average severity for BI and PIP grew much faster.

Sources: ISO/PCI *Fast Track* data; Bureau of Labor Statistics (CPI); Insurance Information Institute

70

P/C Personal Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

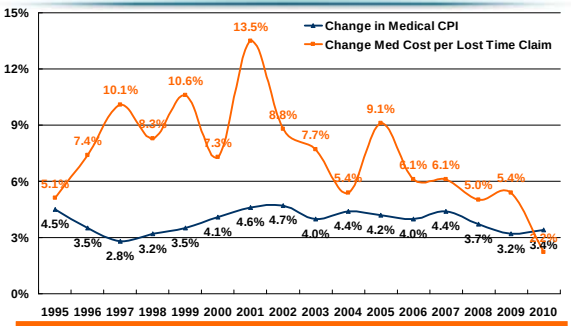


Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least

Source: Bureau of Labor Statistics; Insurance Information Institute.

71

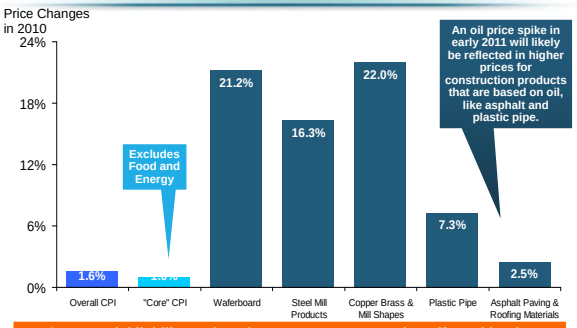
WC Medical Severity Rising at Twice the Medical CPI Rate



The average annual increase in WC medical severity from 1995 through 2009 was nearly twice the medical CPI (7.6% vs. 3.9%). Will healthcare reform affect this gap?

Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

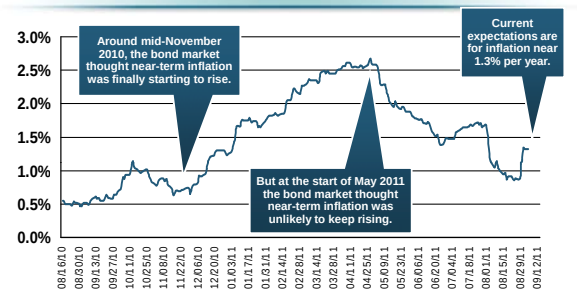


Commercial liability and workers comp costs are also affected by the exploding cost of health care.

Source: Bureau of Labor Statistics; Insurance Information Institute.

73

The Bond Market's Recent* Expectation of U.S. Inflation in the Next Two Years



The rate is calculated by subtracting the real yield of the 2-year TIPS bond from the yield of the 2-year Treasury note.
The result is the implied inflation rate for the next 2 years.

*through 9/9/2011
Source: http://www.bloomberg.com/apps/quote?ticker=USGGBE02:IND

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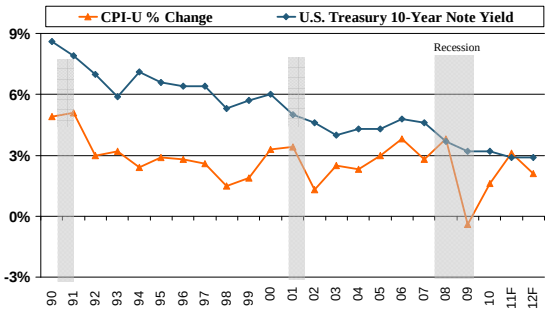
Investments

Interest-Based Investments Benefit from Higher Inflation

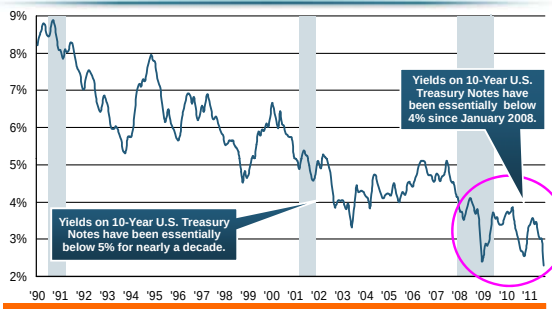
75

Bond Yields Tend to Follow Inflation



Sources: US Bureau of Labor Statistics (history); Blue Chip Economic Indicators, 9/11 issue (forecast)

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2011*

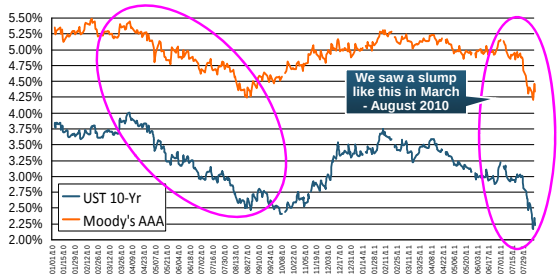


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, through August 2011 Note: Recessions indicated by gray shaded columns.
Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

77

Daily Yields, 10-Year U.S. T-Notes vs. Moody's Seasoned AAAs, 2010-2011*



The spread between the two yields reflects confidence (or lack of it) in the economy's prospects. A wider spread indicates worry; narrower = confidence.

*through 9/1/2011
Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/h15/data/Business_day/H15_TCMNOM_Y10.txt
and http://www.federalreserve.gov/releases/h15/data/Business_day/H15_AAA_NA.txt

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Capital/Policyholder Surplus (US)

Total Surplus Exhibits Little Cyclicality, While Surplus Leverage Ratios Influence Cycle

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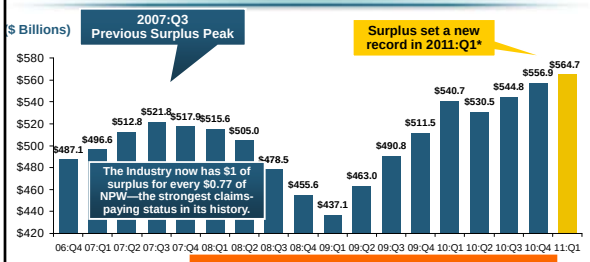
Policyholder Surplus, 2006:Q4–2011:Q1



*Includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

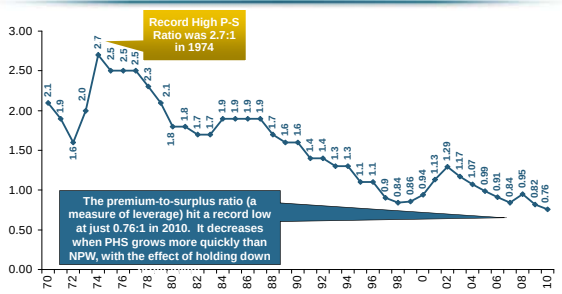
Quarterly Surplus Changes Since 2007:Q3 Peak

09:Q1: -$84.7B (-16.2%)	10:Q1: +$18.9B (+3.6%)
09:Q2: -$58.8B (-11.2%)	10:Q2: +$8.7B (+1.7%)
09:Q3: -$31.0B (-5.9%)	10:Q3: +$23.0B (+4.4%)
09:Q4: -$10.3B (-2.0%)	10:Q4: +$35.1B (+6.7%)
	11:Q4: +$42.9B (+8.2%)

Sources: ISO, A.M .Best.

80

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2010



The Premium-to-Surplus ratio at year-end 2010 implies that P/C insurers held $1 in Surplus against each $0.76 in Premiums Written . In 1974, Each $1 of Surplus Backed $2.70 in Premium.

Sources: Insurance Information Institute calculations from A.M. Best data.

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P/C Insurance Industry Financial Overview

Profit Recovery Will Be Slowed by High CATs, Low Interest Rates, Diminishing Reserve Releases

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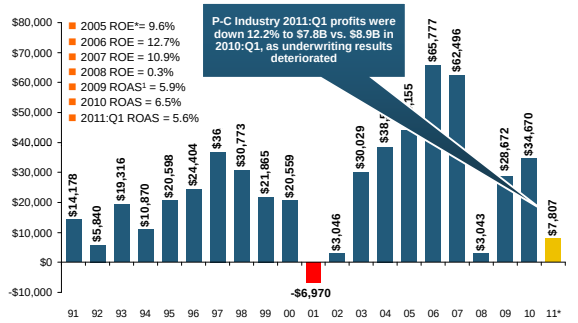
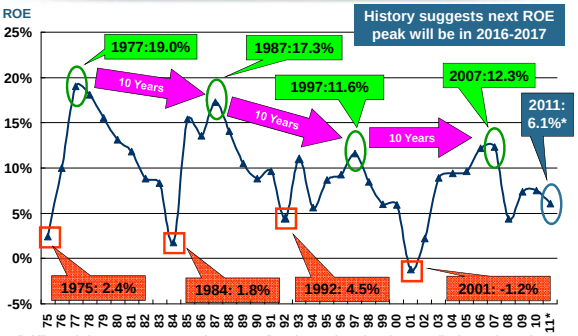
P/C Net Income After Taxes 1991–2011:Q1 ($ Millions)



* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.5% ROAS for 2011:Q1, 7.5% for 2010 and 7.4% for 2009.
Sources: A.M. Best, ISO, Insurance Information Institute

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011*



*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS for Q1 data.
Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

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Thank you for your time and your attention!